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Report of the UNDP Office of Audit and Performance Review and the Project Services Audit Section to the Executive Director of UNOPS on internal audit services in 2002

Summary

The internal audit of operations of the United Nations Office for Project Services (UNOPS) is carried out by the Project Services Audit Section (PSAS) of the UNDP Office of Audit and Performance Review (OAPR). This report presents PSAS findings in relation to 19 audit assignments in 2002 for which reports were issued. The Executive Board may wish to take note of this report.

I. Introduction

1. Pursuant to the Memorandum of Understanding between UNOPS and the UNDP Office of Audit and Performance Review, the internal audit of UNOPS operations was carried out by PSAS in 2002. PSAS has seven posts comprising a chief, five audit specialists and an audit assistant. In 2002, two of the audit specialist posts were vacant for part of the year (one was filled in mid-May, the other in mid-July), and one audit specialist post devoted exclusively to the management service agreement (MSA) audit was vacant during the entire year. At end of August 2002, the Chief of PSAS retired and the related post was still vacant as of 31 December 2002.

2. In line with the approved annual audit plan for 2002, OAPR conducted a total of 19 internal audits covering operational activities in the field and at headquarters, as

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well as those under the MSA modality. Brief summaries of these audits are presented below.

II. Headquarters audits

3. At headquarters, five audits were carried out, comprising the following: (a) a desk audit of non-expendable property in UNOPS decentralized offices; (b) a horizontal audit of the submission to the United Nations Joint Staff Pension Fund (UNJSPF) of separation documents and other data by UNOPS; (c) a desk audit of the administrative expenditure under Integrated Management Information System (IMIS) code "organizational unit 8001"; (d) a review of financial forecasting; and (e) the audit of financial authorizations to the field, which was started in December 2002.

4. There were no major areas of concern relating to the above audits of headquarters functions. The special circumstances of the UNOPS budget reduction exercise of 2002, however, necessitated a departure from the usual planning process, requiring the financial forecasting process to be completed within a short two-week period, followed by an iterative finalization of the budget reduction exercise. OAPR found the planning process to be inadequately documented, with no formal procedures or instructions issued for the preparation of the annual business plan, either at organizational or divisional levels. As for the 2001 delivery forecasts, OAPR considered them inflated and attributed the large shortfall in actual delivery to optimistic forecasting by UNOPS and to unforeseen budget reductions and delays in budget approvals by some UNOPS clients. The point was also raised that division chiefs should be held accountable primarily for income rather than delivery targets, as income is a closer barometer of whether the self-financing objective will be met than delivery alone.

III. Field audits

5. There were seven field audits comprising the following seven activities: (a) management audit of the project Apoyo a la ejecución de la reforma judicial (GUA/99/014); (b) management audit of the project Support to Human Rights Operation in Colombia (COL/01/RB4); (c) management audit of the project Bi-communal Development Programme (CYP/98/001); (d) special audit of the project Comprehensive Disabled Afghans' Programme (AFG/96/006) and (AFG/00/018); (e) horizontal audit of UNOPS procurement activities in northern Iraq; (f) management audit of the Global Environment Facility (GEF) Small Grants Programme (SGP) country allocation under project number BOT/98/G52; and (g) management audit of the GEF/SGP country allocation under project number MAR/98/G52.

6. OAPR considers the overall level of internal control to be satisfactory with respect to the audits of GUA/99/014, COL/01/RB4 and procurement activities in northern Iraq. Nonetheless, some improvements in operational activities were identified. Examples of include: (a) for GUA/99/014, the need to improve compliance with certain reporting requirements to the Government; (b) for COL/01/RB4, the need for timely up-to-date expenditure information, and to define fully the degree of UNOPS involvement in the provision of support services at an

early stage in either the memorandum of understanding or the project document; and (c) for procurement activities in northern Iraq, the need to ensure that the reservation of funds covering a requisition for goods or services is always taken into account at the field level, and to strengthen cash payment documentation.

7. With regard to the audit of CYP/98/001, the unusual political environment and the absence of a country office in Cyprus were acknowledged in the audit report as having a significant effect on the implementation of project activities. A main issue is the need to revise the project document because it does not reflect realities, current arrangements, or the intentions of the parties involved, particularly the links to grant agreements signed between the United States Agency for International Development and UNDP, as well as those relating to budgetary aspects, the role of UNDP in project implementation, and the terms of reference of the programme steering committee.

8. A special audit of projects AFG/96/006 and AFG/00/018 was carried out at the request of UNOPS management, considering the lack of clarity on arrangements and related financial procedures in respect of certain agreements signed by project personnel. The outcome of the audit was that the series of actions taken by former project personnel demonstrated poor performance and lack of due care in the exercise of management functions, as well as disregard for internal control procedures. It was noted that (a) certain project personnel signed donor agreements and implemented related activities without any authorization; and (b) the former chief technical adviser used an individual bank account which he established, without authority, for funds received under such donor agreements and for project disbursements and transactions under subcontract agreements.

9. For both audits of GEF/SGP country allocations BOT/98/G52 and MAR/98/G52, the overall level of internal control is considered to be partially satisfactory. In the case of BOT/98/G52, however, a significant issue (assessed as deficient) pertains to a weakness in financial reporting where both grant and operating expenditure for 2001 and for the period January to October 2002 were materially misstated in UNOPS project accounts. In the case of MAR/98/G52, a serious concern (also assessed as deficient) is a conflict of interest issue regarding the membership of the national coordinator to an association, which is a beneficiary of grant funds. The status of this association as a non-governmental organization (NGOs) is questionable because the GEF/SGP guidelines state that grants may only be made to NGOs and community-based organizations for activities in GEF focal areas.

IV. Audit of management service agreement activities

10. As in previous years, OAPR conducted financial audits of MSA activities implemented by UNOPS under letters of agreement between the borrowing governments and UNDP with respect to activities financed from World Bank loans. In 2002, audits were undertaken for six MSA activities, with total expenditure of $6.8 million in 2001 and $5.1 million in 2000 for MSA TUR/95/R01. In each of these audits, the opinion was expressed that the "financial statements present fairly the financial position [...] as at 31 December 2001 and the results for the financial period then ended. The transactions were in accordance with the relevant legislative authority in all material respects".

11. A financial audit was also carried out for an MSA activity as required under the memorandum of agreement between Pakistan and UNDP for management and other support services to be provided by UNOPS under the National Drainage Programme (PAK/99/R71), which is financed by the Japan Bank for International Cooperation (JBIC). The audit opinion expressed in the related report was qualified with respect to items relating to the management fee and the travel charges of the UNOPS Portfolio Manager. Highlighted in the report were the need to define the basis on which the fee was to be calculated and the need to resolve budgetary requirements on travel costs with the Government.

V. Audit recommendations

12. The audit reports issued in 2002 contained 135 recommendations. Of these, 51 were in the area of administration (which included contracts and procurement), 36 in finance, 19 in programme, 16 in personnel, 11 in organization and two in the area of policy. It should be noted that as a result of the special nature and purpose of the reports on the audit of MSAs financed by the World Bank, those six reports do not contain recommendations. The report on the audit of MSA activity financed by JBIC similarly did not contain recommendations.

13. Based on an arrangement between UNOPS and OAPR, the UNOPS organizational units concerned provided their written comments on the contents of the draft audit reports, with an account of actions taken, or contemplated to be taken, to implement the recommendations contained in the reports. The timeliness of UNOPS action units in providing comments, while mostly surpassing the three-week time limit, is still considered on the whole acceptable, in light of the reduction in UNOPS staffing capacity as a result of the unusual financial difficulties which the organization experienced during the reporting period.

14. Of the total of 135 recommendations made in 2002, UNOPS provided its comments on all 135 recommendations. There was only one instance where UNOPS did not agree with a recommendation. In general, the comments indicated that actions have been taken or are being taken to address the audit issues and recommendations.